Mercedes AMG High Performance Powertrains Limited

Annual report and financial statements

Registered number 1760288

31 December 2020

Contents

Strategic Report

Principal activities and business review

The principal activity of the company is the design, the development and the manufacture of the Mercedes-Benz Formula One Power Unit, on behalf of its parent company Daimler AG, which powered the Mercedes AMG Petronas Formula One Team, Racing Point UK and Martini Williams Racing Team for the 2020 Formula One race season.

The directors consider quality, technical excellence, speed and flexibility, combined with cost control, to be the principal success factors towards realising the company's strategies and achieving the company's targets. Performance against these measurables is regularly reviewed.

The company had another successful season with the Mercedes M11 EQ Power+ power unit winning both the Constructors' and Drivers' Formula One World Championships for the seventh year in succession. The Mercedes Power Unit achieved 14 race wins, with 15 pole positions and 6 1, 2 finishes. The company's Power Unit accumulated 45% *(2019:38%)* of the total points available during the season.

Overall turnover was £195.4 million *(2019: £237.8 million)*. Turnover also includes design, development and manufacturing activities on behalf of the parent company Daimler AG for transferring F1 technology to the Project One car and for preparation for the 2021 (Season 7) Formula E race season.

In the year, the company made a loss before taxation of £0.1 million *(2019: Profit of £10.2 million)*, representing a margin of -0.1% *(2019: 4.3%)* against turnover.

In 2021 the company will continue with its principal activities to design, develop and manufacture the Formula One Power Unit on behalf of its parent company Daimler AG. Whilst also undertaking additional design, development and manufacturing work for Daimler, including finalising development and testing of the Project One hypercar, transitioning into its full production in the second half of the year. Formula E will conclude Season 7 and begin development on Season 8, which commences with the race in January 2022.

The United Kingdom remains a global centre of competence for the motorsport industry and this coupled with the Government's support for Research and Development has enabled the company to continue to invest in a highly skilled workforce and technologically advanced asset base. The company now employs 766 staff members and contributes over 85% (2019: 82%) of its total expenditure within the United Kingdom.

Principal risks and uncertainties

The Contract Manufacturing Agreement with Daimler AG minimises all significant business risks for the company. However, as the company operated principally in two currencies (Sterling and Euro) there is inherent exposure to exchange rate risk.

Interest rate risk is limited to the internal borrowing rate set by Daimler AG.

The company has assessed and continues to monitor the potential impact of COVID-19 very carefully and is taking all necessary precautions to protect the workforce in line with Government advice. At this stage the Project One hypercar project has not suffered any significant disruption and there are minimal anticipated impacts on the Formula One and Formula E calendars, meaning the company is able to maintain profitability and to meet all financial obligations. The company will continue to review the possible impacts on the business and will refine its contingency plans to mitigate the effects of the virus on the business.

Management have continued to monitor the potential impacts of Brexit and work has continued to mitigate the risks both to people and supply chain.

By order of the board

Hywel Thomas

Hywel Thomas
Director

Directors' report

The directors present their report with the financial statements of the company for the year ended 31 December 2020.

Research and development

The company engages in research and development activity to support the development of Formula One Power Units, Formula E power units and the transfer of that technology to road car projects. The total research and development expenditure was £127.5 million *(2019: £152.2 million)*.

Dividend

No dividend was paid during the year *(2019: £3 million)* in accordance with Daimler AG group equity guidelines.

Directors

The directors who held office during the year and up to the date of the signing of the Financial Statements were as follows:

Markus Schaeffer	Non-executive and Chairman	
Andy Cowell	Managing Director	Resigned 30 June 2020
Hywel Thomas	Managing Director	Appointed 1 July 2020
Torsten Eder	Non-executive	
Jochen Hermann	Non-executive	

Employee Engagement

It is a duty of the directors, under section 172 of the Companies Act 2006, to promote the success of the Company for the benefit of its members as a whole and in doing so have regards to the likely consequences of any decision in the long term; the interests of the company's employees; and its relationships with suppliers, customers and others.

Employees are central to this success, as such the company's management has an open policy on the communication of information to employees concerning factors affecting their interests as employees and the development of the company; it also consults employees on a regular basis to ensure that their views are taken into account in making decisions on matters likely to affect their interests.

It is the company's policy to give full and fair consideration to suitable applications for employment by disabled persons having regard to their particular aptitudes and abilities. Disabled employees are eligible to participate in all training, career development and promotion opportunities available to staff. Opportunities also exist for employees of the company who become disabled to continue their employment or to be trained in other positions in the company.

Political contributions

The company made no political donations or incurred any political expenditure during the year *(2019: £nil)*.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' report *(continued)*

Environmental policy and mandatory greenhouse gas emissions reporting

This report covers the 2020 calendar year for all information in line with the director's financial report. It must be noted there was a significant reduction in usage of all utilities during April 2020 due to the coronavirus shutdown reducing on site activity significantly.

In 2020 Mercedes AMG High Performance Powertrains Limited made a commitment to support Daimler AG's Ambition2039, to achieve a carbon-neutral passenger car fleet by 2039 and carbon neutral production by 2022.
The company has developed a sustainability agenda with the target of reducing CO2e emissions by a total of 50% by the end of 2022, compared to the baseline set in 2018. This will mean a total drop from around 11,500 tCO2e to 5,750 tCO2e by end of 2022.

This will be achieved by implementing a variety of energy saving measures and a significant shift from bought-in purchased electricity to onsite electricity generation methods such as a Combined Cooling and Heat Power system (CCHP) installed in 2018 and a solar PV installed 2019. During the year 2020 these two generation methods have produced a total of 13,331,049 kWh of all electricity used on site. This has allowed the company to self-produce over 50% of the total used electricity on-site. This has reduced the electricity related emissions by a total of 3,108 tCO2e, compared to if the electricity was purchased from an external energy supplier.

In addition, the company transferred to a green energy tariff from August 2020 backed by Renewable Energy Guarantees of Origin (REGO) certificates and a carbon offset gas supply with Certified Emissions Reductions (CER) generated under the Kyoto Protocol.

The very nature of power unit development means that there is a certain amount of unavoidable CO2e emissions, which will be offset through gold-standard offsetting mechanisms on the same basis as the wider Daimler AG group. On this basis, the company will be carbon-neutral from 2020 onwards.

In the period covered by the report the company has identified and implemented energy initiatives that have resulted in purchased energy savings of 2,691,289 kWh, amounting to a saving of 587 tCO2e. These savings are comprised of a number of improvements that include LED lights, Solar PV generation and upgrades to existing equipment. Furthermore, 45 electric car charging points have been installed, with infrastructure in place for rapid expansion to approximately 200, to support the transition to plug-in hybrid and electric vehicles.

The company also maintains both an ISO 14001:2015 and ISO 50001:2018 certification. This has ensured that the company places a key focus on both environmental and energy improvement while driving down the sites overall energy usage.

SECR Inventory	**2020**
Energy consumption used to calculate emissions: /kWh	48,907,256
Emissions from Scope 1 tCO_2e	8,206
Emissions from Purchased electricity tCO_2e (Scope 2)	3,222
Total gross tCO_2e based on above	11,428
Intensity Ratio tCO_2e production volume corrected	85

This is the first year of SECR, so no comparison in emissions has been established.

Directors' report *(continued)*

Methodology

Scope 1 and 2 consumption data has been calculated using in accordance with the GHG Protocol's methodology. The conversion calculations from kWhs to tCO2e was completed using internal consumption data from invoices and meter readings. These conversions were completed using the 2020 UK Government GHG Conversion Factors for Company Reporting with the appropriate gross calorific value (CV) conversion value for the reporting year (01/01/2020 – 31/12/2020).

The intensity ratio has been calculated using the total production volume within 2020. The final value was calculated by dividing the total tCO2e by the total production volume in 2020.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Hywel Thomas
Director

Mercedes AMG High Performance Powertrains Ltd
Morgan Drive
Brixworth
Northamptonshire
NN6 9GZ

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERCEDES AMG HIGH PERFORMANCE POWERTRAINS LIMITED

Opinion

We have audited the financial statements of Mercedes AMG High Performance Powertrains Limited ("the company") for the year ended 31 December 2020 which comprise the Profit and loss account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the majority of sales are made intercompany and management are not incentivized on the basis of financial performance, rather on the operational performance.

We performed the following procedures:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Bethan Telford (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Challenge House
Sherwood Drive
Bletchley
Milton Keynes
MK3 6DP
23 September 2021

Profit and loss account

for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	2	**195,357**	237,770
Cost of sales		**(162,778)**	(172,574)
Gross profit		**32,579**	65,196
Administrative expenses		**(31,285)**	(54,118)
Operating profit		**1,294**	11,078
Interest receivable and similar income	6	**29**	45
Interest payable and similar charges	7	**(1,416)**	(954)
(Loss)/Profit on ordinary activities before taxation		**(93)**	10,169
Tax on (loss)/profit on ordinary activities	8	**(1,129)**	(3,730)
(Loss)/Profit on ordinary activities after taxation		**(1,222)**	6,439

There are no recognised gains or losses for the financial year except for those shown above. Accordingly, no separate statement of total recognised gains and losses has been prepared.

The notes on pages 12 to 24 form part of these financial statements.

Balance Sheet
at 31 December 2020

	Note		**2020**		2019
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*9*	**2,129**		2,460	
Tangible assets	*10*	**122,092**		127,455	
			124,221		129,915
Current assets					
Stocks	*11*	**62,704**		9,099	
Debtors	*12*	**97,696**		57,266	
Cash at bank and in hand		**2**		3	
		160,402		66,368	
Creditors: amounts falling due within one year	*13*	**(118,169)**		(78,106)	
Net current assets / (liabilities)			**42,233**		(11,738)
Total assets less current liabilities			**166,454**		118,177
Creditors: amounts falling due after more than one year	*14*	**(71,271)**		(23,423)	
Provisions for liabilities					
Deferred tax liability	*16*	**(20,216)**		(18,565)	
			(91,487)		(41,988)
Net assets			**74,967**		76,189
Capital and reserves					
Called up share capital	*18*		**17**		17
Share premium account			**14,999**		14,999
Redenomination reserve			**1**		1
Profit and loss account	*19*		**59,950**		61,172
Shareholders' funds			**74,967**		76,189

The notes on pages 12 to 24 form part of these financial statements.

These financial statements were approved by the board of directors on 21 September 2021 and were signed on its behalf by:

Hywel Thomas
Director

Company registered number: 1760288

Statement of Changes in Equity
for the year ended 31 December 2020

	Called-up Share capital	Share Premium	Redenomination Reserve	Profit and Loss account	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2019	17	14,999	1	57,733	72,750
Profit for the year	-	-	-	6,439	6,439
Dividends	-	-	-	(3,000)	(3,000)
Balance at 31 December 2019	17	14,999	1	61,172	76,189
Loss for the year	-	-	-	(1,222)	(1,222)
Balance at 31 December 2020	**17**	**14,999**	**1**	**59,950**	**74,967**

Notes
(forming part of the financial statements)

1 Accounting policies

Mercedes AMG High Performance Powertrains Limited (the "company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (*"FRS 102"*) as issued in August 2014. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company's ultimate parent undertaking, Daimler AG includes the company in its consolidated financial statements. The consolidated financial statements of Daimler AG are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Daimler UK Ltd, Tongwell, Milton Keynes, MK15 8BA. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Related Party transactions;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

Notwithstanding net current liabilities of £42.2m as at 31 December 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Contract Manufacturing Agreement between the parent company, Daimler AG, and Mercedes AMG High Performance Powertrains Limited ensures that the company will be provided with sufficient funds to enable it to meet its liabilities as they fall due and that the parent company will not seek repayment of amounts due from the Company. The Directors have assessed the effects on the Company of COVID-19, which to date have been limited, and consider that the effects to date and the reasonably possible future impacts are effectively mitigated by this Agreement.

As at 31 December 2020, intercompany loan amounts of £60m and £22m were repayable on 20 September 2021 and 5 October 2021 respectively. In addition, the entity obtained a new £70m loan during the year that is repayable on 16 February 2022. As per the Daimler AG Capital Structure Policy, the Group's treasury division ensures that all Group Companies have access to funds sufficient to meet their payment obligations. Therefore, the Treasury division develops respective funding structures for Group Companies and is responsible for all external and internal funding measures of Group companies including the related support policy.

This effectively means that Daimler AG will supply funding from whichever source they believe to be appropriate specific to the Company's future needs.

Notes *(continued)*

1 Accounting policies *(continued)*

The Company participates in the Daimler AG cash-pooling arrangement, under which the Company held a positive balance of £49m at the balance sheet date. All funds held under this central arrangement are managed by Daimler AG treasury division and, under the terms of the Capital Structure policy, the Company is able to gain immediate access to these funds.

The directors consider that pursuant to this policy, Daimler AG directly or through any of its group entities will continue to provide the necessary funding that should enable the Company to continue in operational existence for at least a period of 12 months from the date of approval of these financial statements.

In forming their conclusion, the directors have made appropriate inquiries of the parent company and have not identified any matters which impact its conclusions regarding the ability of the company to continue as a going concern. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

On this basis, the Directors consider that they will be able to meet their liabilities, as and when they fall due, for a period not less than 12 months from the date of signing of these financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets; for example land is treated separately from buildings.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described in 1.11 below.

Notes *(continued)*

1 Accounting policies *(continued)*

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 10 - 40 years
- plant and equipment 3 - 16 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Assets under construction are not depreciated until the asset is taken into use. Depreciation is charged based on the useful lives given above.

1.6 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Other intangible assets

Other intangible assets that are acquired by the company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date that they are available for use. The estimated useful lives are as follows:

- computer software 3 - 5 years

The basis for choosing these useful lives is an assessment of the likely useful life with regard to prior experience and anticipated technological changes.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are tested for impairment in accordance with FRS102 Section 27 Impairment of assets when there is an indication that an intangible asset may be impaired.

Assets under construction are not depreciated until the asset is taken into use. Depreciation is charged based on the useful lives given above.

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

The company only includes in the year end carrying value those components and parts that in the opinion of the directors will form part of the first "track-ready" power units, i.e. production power unit.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.9 Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.10 Turnover

Turnover represents income received from Daimler AG for the development and supply of Formula One powertrains to Mercedes AMG Petronas Formula One Team, Racing Point UK Ltd and Williams Formula One Team, and for the development and supply of Formula E powertrains to Mercedes Benz Formula E and Venturi Racing, alongside other R&D activities on behalf of the parent company Daimler AG for road car projects. The turnover from any additional work performed on behalf of any of the above Formula One and Formula E teams is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

1.11 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable and finance charges on finance leases recognised in profit or loss using the effective interest method.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes *(continued)*

2 Turnover

	2020 £000	2019 £000
Sale of goods	**4,764**	2,273
Rendering of services	**190,593**	235,497
Total turnover	**195,357**	237,770

3 Expenses and auditor's remuneration

Included in (loss) / profit are the following:

	2020 £000	2019 £000
Research and development expensed as incurred	**126,115**	155,089
Hire of land and buildings – operating leases	**143**	112
Hire of plant and machinery – operating leases	**1,914**	1,768
Loss / (Profit) on disposal of fixed assets	**261**	(1)

Auditor's remuneration:

	2020 £000	2019 £000
Audit of these financial statements	**51**	48

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2020	2019
Production	**637**	629
Administration (includes graduates, apprentices and placements)	**121**	113
	758	742

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	**51,950**	53,017
Social security costs	**6,630**	6,799
Contributions to defined contribution pension plans	**4,795**	4,599
	63,375	64,415

Notes *(continued)*

5 Directors' remuneration

	2020 £000	2019 £000
Directors' remuneration	**3,032**	3,381
Amounts receivable under long-term incentive schemes	**22**	47
Company contributions to money purchase pension plans	**27**	-
	3,081	3,428

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £3,032,318 *(2019: £3,380,981)*, and company pension contributions of £27,500 *(2019: £Nil)* were made to a money purchase scheme on their behalf.

	Number of directors 2020	2019
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1

6 Other interest receivable and similar income

	2020 £000	2019 £000
Receivable from group undertakings	**23**	45
Other interest	**6**	-
Total interest receivable and similar income	**29**	45

7 Interest payable and similar charges

	2020 £000	2019 £000
Hire purchase and finance lease interest	**6**	6
Payable to group undertakings	**1,410**	948
Other interest	-	-
Total other interest payable and similar charges	**1,416**	954

Interest payable and similar charges includes interest payable on loans and borrowings of £1,409,505 *(2019: £948,098)*, all of which was payable to group undertakings.

Notes *(continued)*

8 Taxation

Total tax expense recognised in the profit and loss account

		2020 £000		2019 £000
(Loss) / Profit Before Tax		**(93)**		10,169
Summary of Tax Charge				
Analysis of Tax Charge in Period				
UK Corporation Tax	**19.00%**		19.00%	
-Current tax on income for the period		**747**		2,864
-Adjustments in respect of prior periods		**(1,270)**		(82)
UK Current Tax		**(523)**		2,782
Deferred Tax				
-Origination / reversal of temp diffs		**(308)**		(249)
-Adj. in respect of previous periods		**1,960**		1,197
Total Deferred Tax		**1,652**		948
Total Tax Expense		**1,129**		3,730

The taxation charge relates entirely to UK taxes.

Reconciliation of effective tax rate

		2020 £000		2019 £000
(Loss) / Profit for the year		**(1,222)**		6,439
Total tax expense		**1,129**		3,730
(Loss) / Profit before taxation		**(93)**		10,169
Tax using the UK corporation tax rate	**19.00%**	**(17)**	19.00%	1,932
Adjustment in respect of previous periods		**690**		1,115
Origination and reversal of timing differences		**423**		676
Non-deductible expenses		**33**		7
Total tax expense included in profit or loss		**1,129**		3,730

In March 2020 the UK Government announced that a rate of 19% would continue to apply from 1 April 2020, and this change was substantively enacted on 17th March 2020. The deferred tax liability as at 31 December 2020 has been calculated based on this rate.

In March 2021 the UK Government announced that a rate of 19% would continue to apply for the financial year beginning 1 April 2022, but increase to 25% in the financial year beginning 1 April 2023. This will increase the company's future tax charge accordingly and had it been substantively enacted at the balance sheet date would have increased deferred liabilities by £4,334,955.

Notes *(continued)*

9 Intangible assets

	Software £000	Assets under construction £000	Total £000
Cost			
Balance at 1 January 2020	14,155	660	14,815
Additions	368	260	628
Disposals	(99)	-	(99)
Transfers	641	(451)	190
Balance at 31 December 2020	15,065	469	15,534
Amortisation			
Balance at 1 January 2020	12,355	-	12,355
Amortisation for the year	1,149	-	1,149
Disposals	(99)	-	(99)
Balance at 31 December 2020	13,405	-	13,405
Net book value			
At 1 January 2020	1,800	660	2,460
At 31 December 2020	**1,660**	**469**	**2,129**

Transfers represent completion of assets under construction, with £190,267 being transferred from Tangible Assets under construction to Software due to a reclassification on capitalisation.

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings £000	Plant and Equipment £000	Assets Under construction £000	Total £000
Cost				
Balance at 1 January 2020	60,473	191,485	10,877	262,835
Additions	106	2,793	5,205	8,104
Disposals	-	(3,412)	-	(3,412)
Transfers	129	5,524	(5,843)	(190)
Balance at 31 December 2020	60,708	196,390	10,239	267,337
Depreciation				
Balance at 1 January 2020	16,547	118,833	-	135,380
Depreciation charge for the year	1,490	11,512	-	13,002
Disposals	-	(3,137)	-	(3,137)
Balance at 31 December 2020	18,037	127,208	-	145,245
Net book value				
At 1 January 2020	43,926	72,652	10,877	127,455
At 31 December 2020	**42,671**	**69,182**	**10,239**	**122,092**

Transfers represent completion of assets under construction with £190,267 being transferred from Tangible Assets under construction to Software due to a reclassification on capitalisation.

Leased plant and machinery

At 31 December 2020 the net carrying amount of plant and fixtures leased under a finance lease was £89,061 *(2019: £105,461)*. Depreciation for the year on these assets was £20,196 *(2019: £13,078)*.

Notes *(continued)*

11 Stocks

	2020 £000	2019 £000
Raw materials and consumables	**3,986**	9,099
Work In Progress	**49,249**	-
Finished Products	**9,469**	-
	62,704	9,099

12 Debtors

	2020 £000	2019 £000
Trade debtors	**3,589**	382
Amounts owed by group undertakings	**50,030**	18,536
Tax and Social Security	**11,067**	4,891
Other debtors	**27,741**	27,461
Prepayments and accrued income	**5,269**	5,996
	97,696	57,266

All debtors are due within one year.

13 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Obligations under finance leases (see note 15)	**24**	25
Payments on account	**570**	373
Trade creditors	**17,974**	15,523
Amounts owed to group undertakings (see note 15)	**83,150**	48,234
Taxation and social security	**3,796**	3,663
Other creditors	**14**	13
Accruals and deferred income	**12,642**	10,275
	118,170	78,106

14 Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Obligations under finance leases (see note 15)	**51**	75
Amounts owed to group undertakings (see note 15)	**70,000**	22,000
Accruals and deferred income	**1,220**	1,348
	71,271	23,423

Notes *(continued)*

15 Interest-bearing loans and borrowings

	2020 £000	2019 £000
Creditors falling due after more than one year		
Loan from group undertaking	**70,000**	22,000
Finance Lease Liabilities	**51**	75
	70,051	22,075

	2020 £000	2019 £000
Creditors falling due within less than one year		
Loan from group undertaking, including accrued interest	**82,425**	45,360
Finance Lease Liabilities	**24**	25
	82,449	45,385

The loans from group undertaking are repayable as follows:

Value	Repayable Date	Interest Rate
22,000,000	5th October 2021	1.390%
60,000,000	20th September 2021	1.776%
70,000,000	16th February 2022	0.66%

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Accelerated capital allowances	-	-	**20,600**	18,868	**20,600**	18,868
Employee benefits	**(384)**	(303)	-	-	**(384)**	(303)
Net tax (assets) / liabilities	**(384)**	(303)	**20,600**	18,868	**20,216**	18,565

In addition to the deferred tax asset above, the company has additional unrecognised gross tax losses of £8,532,704 *(2019: £8,532,704)*.

Notes *(continued)*

17 Share based remuneration

In 2005, Daimler AG adopted a 'Performance Phantom Share Plan' (PPSP) under which eligible employees of Mercedes AMG High Performance Powertrains Limited are granted phantom shares enabling them to receive cash payments. The terms and conditions of the PPSP are as follows:

Nature of scheme	Grant date	Employees entitled	Number of shares allocated	Vesting conditions	Expiry date
Cash-settled award	2017	19	4,596	See below	2021
Cash-settled award	2018	13	4,143	See below	2022
Cash-settled award	2019	16	7,960	See below	2023
Cash-settled award	2020	18	9,394	See below	2024

As at 31 December 2020 the company recognised £324,019 payable to Daimler AG for the award of the PPSP *(2019: £355,179).*

The amount of cash paid to eligible employees is based on the number of vested phantom shares (determined over a three-year performance period) multiplied by the quoted price of Daimler AG's ordinary shares (calculated as an average price over a specified period at the end of the four years of service). The number of phantom shares that vest will depend on the achievement of corporate performance goals, based on competitive and internal benchmarks. Since payment per vested phantom share depends on the quoted price of one Daimler AG ordinary share, the quoted price represents the fair value of each phantom share.

The company recognised in the profit and loss account a charge of £116,243 *(2019: £192,485)* related to cash settled share-based payments.

18 Capital and reserves

Share capital

	2020	2019
	£000	£000
Allotted, called up and fully paid		
1,000 ordinary shares of £17.359 each	17	17
	17	17

19 Profit and loss account

	£000
At beginning of year	61,172
Loss for the year	(1,222)
At end of year	**59,950**

Notes *(continued)*

20 Reconciliation of movements in shareholders' funds

	2020 £000	2019 £000
Opening shareholders' funds	**76,189**	72,750
(Loss) / Profit for the year	**(1,222)**	6,439
Dividends	**-**	(3,000)
Closing shareholders' funds	**74,967**	76,189

21 Operating leases

There are obligations under non-cancellable operating leases to pay rentals during the following time periods:

	2020 £000	2019 £000
One Year	**2,005**	2,001
Two to five years	**708**	2,379
	2,713	4,380

During the year £2,056,973 was recognised as an expense in the profit and loss account in respect of operating leases *(2019: £1,880,294).*

22 Commitments

Capital commitments

The company's contractual commitments to purchase tangible fixed assets at the year-end were £1,592,106 *(2019: £1,300,667).*

23 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Daimler AG. The ultimate controlling party is Daimler AG.

The largest group in which the results of the company are consolidated is that headed by Daimler AG, incorporated in Germany. The consolidated financial statements of Daimler AG are available to the public and may be obtained from Daimler UK Limited, Tongwell, Milton Keynes, MK15 8BA.